

Message Text

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ACTION AF-06

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R 281432Z OCT 75
FM AMEMBASSY DAR ES SALAAM
TO SECSTATE WASHDC 9904
INFO AMEMBASSY LONDON
AMCONSUL LOURENCO MARQUES
AMEMBASSY LUSAKA
AMEMBASSY NAIROBI
AMCONSUL ZANZIBAR

C O N F I D E N T I A L DAR ES SALAAM 4881

E.O.11652 GDS
TAGS: EFIN, ECON, TZ
SUBJECT: DEVALUATION OF TANZANIAN SHILLING

REF: DAR ES SALAAM 4511 (NOTAL)

BEGIN UNCLAS

1. AS DEPT AWARE FROM NEWS SERVICES AND EMBASSY NAIROBI'S CABLE,
TANZANIA TOGETHER WITH KENYA AND UGANDA DEVALUED CURRENCY BY ABOUT
15 PERCENT AND PEGGED SHILLING TO SDR INSTEAD OF US DOLLAR.

2. BOTH KENYAN AND TANZANIAN BANK OFFICIALS GAVE SIMILAR RATIONALE
TO PRESS FOR DECISIONS. BANKERS SAID CHANGE TO SDR MADE BECAUSE
OF FREQUENT FLUCTUATIONS IN MAJOR NATIONAL CURRENCIES. "IT IS NO
LONGER IN OVERALL INTEREST OF COUNTRY TO MAINTAIN A FIXED RELATION-
SHIP OF THE SHILLING WITH ANY SINGLE CURRENCY." OFFICIAL
EXPLANATION FOR DEVALUATION IS TO ALLOW "OUR PRODUCTS TO BE
SOLD AT COMPETITIVE PRICES IN WORLD MARKET" AND TO
REFLECT "AS CLOSELY AS POSSIBLE THE TRUE COSTS OF EXPORTS
AND IMPORTS." TANZANIAN PRESS OFFERED NO DETAILS OF ABOVE
STATEMENTS AND DID NOT DISCUSS IMPACT ON IMPORT PRICES.

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END UNCLAS; BEGIN CONFIDENTIAL

3. BANK OF

TANZANIA AND GOVERNMENT OFFICIALS IN INTERVIEWS
WITH EMBOFF STUCK BASICALLY TO OFFICIAL LINE AND WERE UNWILLING
DISCUSS ADVANTAGES/DISADVANTAGES OF DEVALUATION. MINFINANCE
OFFICIAL NOTED THAT SHILLING WAS OVERVALUED (NEW RATE IS TSHS 8.16
TO US DOLLAR WHILE ZURICH EXCHANGES HAVE BEEN OFFEREING TSHS 15)
AND THAT DECISION WILL HELP FURTHER TO REDUCE IMPORTS. HE DOES
NOT EXPECT THERE WILL BE SUPPLEMENTAL BUDGET ALLOCATIONS TO
THOSE TANGOV AGENCIES WHO DEPEND ON IMPORTED GOODS.

4. SENIOR REP OF US BANK WITH CORRESPONDENT RELATIONSHIP HERE
VISITED DAR OCT 27 AND ALSO FOUND BANK OFFICIALS GENERALLY
RELUCTANT ELABORATE ON DEVALUATION. HE GATHEREED THERE
WAS SOME OPPOSITION TO DECISION WITHIN BANK OF TANZANIA.

5. COMMENT: WE ASSUME DECISION TO DEVALUE WAS TAKEN BY KENYA
WHICH THEN PRESSURED TANZANIA TO FOLLOW (AS DESCRIBED REFTEL).
OTHERWISE THERE WOULD SEEM BE LITTLE ADVANTAGE TO TANZANIA TO
DEVALUE AT THIS TIME. TANZANIA HAS NO PROBLEMS EXPORTING
ALL THE GOODS IT PRODUCES -- MAINLY BASIC COMMODITIES WHOSE
PRICES DETERMINED BY WORLD MARKETS. TANGOV HAS ALREADY
SEVERELY RESTRICTED IMPORTS TO ESSENTIALS AND HAS FOCUSED INDUSTRIAL
DEVELOPMENT ON IMPORT SUBSTITUTION. IT MAY HAVE TO EXTEND BAN
ON IMPORT LICENSES TO MORE CATEGORIES OF GOODS. DOUBTFUL THAT
DEVALUATION WILL HELP SIGNIFICANTLY TO INCREASE AGRICULTURAL AND
INDUSTRIAL PRODUCTIVITY. HIGHER IMPORT COSTS IN TERMS SHILLINGS
OF MACHINERY AND RAW MATERIALS TO STRUGGLING GOVERNMENT
OWNED CORPORATIONS COULD WORSEN THEIR DEBT POSITION AND
INDIRECTLY ADD TO ALREADY HIGH RATE OF INFLATION IN COUNTRY.
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